
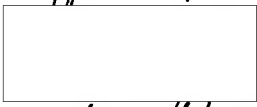
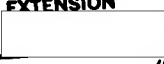


TRANSMITTAL SLIP		DATE
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<p>DCI:  This is the Ecuador Typescript which the  gave to the Vice President. <i>Disc</i></p>		
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Central Intelligence Agency



Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

1 August 1984

ECUADOR'S NEW ADMINISTRATION: CHALLENGES AND PROSPECTSSummary

Conservative President-elect Febres-Cordero will encounter significant political and economic problems following his 10 August inauguration. A sluggish economy and the need to implement austerity measures to satisfy the requirements of international creditors and the IMF will restrict his ability to fulfill heightened domestic expectations generated by his campaign promises. He also can expect strong opposition to his free market economic policies from center-leftist parties--who may try to obstruct his legislative program--and from labor. Finally, the new President faces the possibility of growing terrorist activity from the far left. In facing down the strikes and protest activity that are likely to occur, Febres-Cordero will be able to rely on support from powerful interest groups that opposed his two left-of-center predecessors. He has the confidence of the conservative, and coup-prone, military and solid backing from longtime allies in the business community. In our view, these alliances, plus his considerable popular appeal, will serve to keep opposition activity at controllable levels during the first year of his administration. In return for support of most US positions in international forums, Febres-Cordero will expect increased economic aid from Washington as well as support for Ecuador's position in financial negotiations with international bankers.

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This memorandum was prepared by [redacted]
Office of African and Latin American Analysis. Questions and comments may be
directed to the Chief, South America Division, ALA, [redacted]

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The most difficult task facing the new President will be to revitalize Ecuador's lethargic economy. Notwithstanding Febres-Cordero's campaign promises to remedy the situation quickly, we judge that growth will be slow at best over the next year:

- Central Bank projections for 1984 indicate that GDP will grow only about 2.2 percent.
- Service on the \$7.5 billion debt will consume 35 percent of export earnings this year, creating a goods-and-services deficit.
- Inflation currently is running at a 45-50 percent annual level.
- Unemployment is near 15 percent, while underemployment is close to 50 percent.
- The sucre is overvalued and, according to a respected US financial journal, only about one-quarter of all currency transactions take place on the official market. [REDACTED]

The Magic of the Marketplace

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Unlike many of his presidential counterparts in Latin America, Febres-Cordero is a firm adherent of free market economic policies. Throughout his presidential campaign, he pledged to resort to the "Magic of the Marketplace" to spur economic growth. According to the US Embassy, he believes that fiscal austerity, coupled with free market monetary exchange and credit policies, will restore domestic and foreign business confidence, resuscitate stagnant industrial production, and revive exports. Determined to reduce the government's role in the economy, Febres-Cordero also plans to cut or eliminate basic commodity subsidies, decrease regulation, liquidate state monopolies, and reorganize the state petroleum industry. To offset layoffs arising from projected budget cuts, he intends to use expected foreign aid to increase employment in construction through government-subsidized low-cost housing programs. [REDACTED]

In addition, Febres-Cordero plans to court foreign investors. At a recent meeting in New York with Ecuador's major creditors, he publicly welcomed foreign investment in mining, petroleum exploration and recovery, agroindustry, export industries, and tourism. According to press reports [REDACTED]

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[redacted] he not only favors the abandonment of many Andean Pact trade and investment restrictions but prefers the strengthening of existing bilateral arrangements over regional economic initiatives. [redacted]

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Despite these positions, Febres-Cordero is openly critical of Ecuador's agreements with the international financial community and publicly has promised to negotiate more favorable terms. [redacted]

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The Political Scene

Febres-Cordero faces a fragmented political system. The US Embassy reports that although the overall political spectrum has shifted leftward since the restoration of democracy in 1979, the established parties and numerous labor groups run the gamut from far right to far left (See Appendix). Beneath the rhetoric of populism, however, politics is essentially an elitist activity with personalism and regionalism blurring ideological lines. This complicates consensus-building and creates an environment in which a president's personal alliances often count for more than his ideological orientation. [redacted]

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Febres-Cordero, having garnered 51.5 percent of the total valid vote, enters office backed by a loose coalition of six conservative parties, which, despite similar ideologies, have diverse histories and traditions. For example, the President-elect's Social Christian party is relatively new, unabashedly pro-capitalist and free market oriented, and closely tied to powerful business interests in Guayaquil, the country's largest city and commercial hub. Three other small parties serve primarily as political vehicles for ex-presidents. The two other parties in the coalition--the Conservatives and the Liberals--are longtime rivals who have banded together to resist the center-left. Despite the obvious boost to their political fortunes resulting from association with Febres-Cordero, we judge that most of these conservative parties will continue to hold a minority position in the political system. [redacted]

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In contrast, an amorphous center encompasses the majority of the electorate, with parties ranging from social democratic to centrist populist. The Democratic Left, which nominated Febres-Cordero's presidential opponent, Rodrigo Borja, is the best organized and strongest of all the parties in this category. A largely middle class, social democratic organization affiliated with the Socialist International, the Democratic Left advocates social programs and state intervention in a mixed economy. It has eclipsed the two center-left parties that supported Febres-Cordero's predecessor, President Hurtado. Two remaining centrist groups are potent, coastal-based populist parties that occupy a pivotal position between the center-left parties and Febres-Cordero's conservative front. []

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The parties of the far left also increased their political base in the last election. Although the Socialist Party and its allies fared poorer than expected, the two principal groups--the Maoist Democratic Popular Movement and the Moscow-line Broad Leftist Front--achieved modest gains. The Maoist candidate garnered a significant number of votes from university students, poor neighborhoods, peasants, and some civil servants. Both parties also performed well in congressional and municipal contests and, taken together, the presidential candidates of the three far left parties garnered a respectable 12 percent of the popular vote. []

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Labor is a volatile, and potentially powerful, political force. Traditionally rent by bitter ideological and personal disputes, this sector has demonstrated greater unity over the past two years, according to the US Embassy. The Unified Workers Front, an umbrella organization formed in the late 1970s, was stirred to action by the austerity imposed by the Hurtado administration. Its two principal components--a Communist-dominated confederation and a major democratic organization--laid aside their differences and mobilized large numbers of trade unionists, peasants, and students in strikes last year. Although the Front's effectiveness was reduced somewhat when the powerful transport federation dropped out in 1981, the US Embassy reports that the organization nevertheless emerged as a major disruptive element in labor relations during the Hurtado administration. []

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Political Challenges

Febres-Cordero's election probably will prompt a major opposition offensive against the new administration by parties of the center-left and left, including those in the present government. Febres-Cordero apparently already is facing

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incumbent hostility during the transition process. In contrast to US Embassy reports that have quoted officials of the outgoing administration as pledging cooperation in the transfer of power, [redacted] Hurtado is trying to sabotage Febres-Cordero by committing government funds to multi-year contracts. For example, in an apparent effort to deprive the new president of the financial resources he needs to fulfill his campaign promises, Hurtado [redacted] has agreed to expensive, new arms purchases--a decision the pro-military Febres-Cordero will have difficulty reversing. Hurtado also is attempting to obtain permanent career status in the government for his partisans in order to control important government programs [redacted]

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Febres-Cordero's first political test probably will come from the newly-elected Congress, where his conservative backers are a distinct minority. According to the US Embassy, in early July the Democratic Left, which has more seats than the entire bloc supporting the new President, joined with six other center-left and leftist parties (including both the Moscow-line and Maoist Communist party organizations) to form the "Progressive Democratic Front." This coalition, which will account for 42 of 71 congressional seats, reportedly intends to elect the president of the Congress, control committee assignments, and oppose Febres-Cordero's legislative program, according to the US Embassy. [redacted]

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Organized labor, however, could be the new president's most serious political challenge. Although recent, marginal improvements in the economy and the lame-duck status of the current administration have slightly dampened labor's activism, persistent inflation and continued high unemployment virtually ensure continued unrest. Moreover, labor confederations are likely to be even more hostile to Febres-Cordero's conservative-oriented policies--particularly the proposed austerity measures--than the leftist political parties. Promised cuts in the entrenched bureaucracy will alienate the important public employees federation, but more serious labor ferment probably would result from any government attempt to eliminate or reduce long-established subsidies on basic commodities. A cutback in the gasoline subsidy, for example, would anger the powerful Ecuadorean Drivers Federation and might prompt a strike by the 80,000 member independent transport workers guild, which could effectively paralyze the transportation system. [redacted]

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The Subversive Threat

We believe that the new administration also will face a growing subversive threat from the far left. During the past year, a radical terrorist group called "Alfaro Vive Carajo" ("Alfaro Lives, Damn It" or AVC) began a terrorist campaign that has included seizures of radio stations, some bank robberies, and probably the May 1984 bombing of the US Embassy. The group--apparently composed of present and former student activists--is still very small but seems well organized and highly disciplined. In addition, the US Embassy reports that the terrorists may have links with some of the political parties of the radical left and perhaps with Cuban officials in Quito.

[redacted] Havana apparently is considering providing some form of assistance to an unidentified group that we suspect is the AVC. [redacted]

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At present, the AVC's capabilities appear to be limited. The group recently suffered a major setback when police captured 11 members--including the reputed AVC leader. This apparently has not altered the group's resolve. Ecuadorean authorities believe it may launch an attack to free its imprisoned members [redacted]

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In our judgment, the Ecuadorean Socialist Revolutionary Party (PSRE)--a small, radical leftist organization with little electoral support--could prove more threatening than the AVC in the long run, because of its established university fronts and Cuban backing. Disappointed by its poor showing in the recent election, the PSRE intends to mount violent protests, labor strikes, and terrorist attacks this fall, [redacted]

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[redacted] Party leaders believe the resulting confrontational atmosphere will facilitate recruitment of guerrillas and urban terrorists. [redacted]

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The New President's Assets

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For his part, Febres-Cordero faces these challenges with a number of assets. He can count on support from two powerful,

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conservative domestic institutions--the military and the business community--that opposed his left-of-center predecessors. As a result, the tensions and occasional coup plotting that characterized executive-military relations under former Presidents Roldos and Hurtado are unlikely during Febres-Cordero's presidency. According to US Defense Attache reporting, the officer corps is pleased with his election and expects him to promote closer military ties to the United States. Moreover, we believe that the armed forces will assist the administration in maintaining law and order. [REDACTED]

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The President-elect's free-market economic initiatives will draw additional support from his former colleagues in the commercial sector, according to the US Embassy. A self-made millionaire, Febres-Cordero has close ties to numerous business leaders who have expressed privately and publicly their backing for him. This support is buttressed by the fact that he is a product of the Guayaquil business world. [REDACTED]

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Finally, Febres-Cordero's considerable political acumen and personal appeal are an important asset. For example, during the presidential campaign, the charismatic and flamboyant candidate expertly wooed votes away from his lackluster opponent. The US Embassy reports that, as a Congressman, Febres-Cordero's oratorical crusade against corruption in government produced a public outcry that led to the resignation of several high level officials. [REDACTED]

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Prospects for the New Administration

In our view, Febres-Cordero probably will cope with these expected political and economic challenges well enough to consolidate further Ecuador's fledgling democracy. Although his conservative ideology is likely to lead to some increased political polarization, we believe his substantial backing among the military and business community, coupled with his popular support, will serve to keep strikes and protest activity at controllable levels during his first year in office. [REDACTED]

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To accomplish his principal economic policy objectives, especially reducing the budget deficit, Febres-Cordero will have to trim the bloated state bureaucracy, increase gasoline prices, and eliminate food subsidies--all politically-sensitive measures capable of provoking general strikes and civil disturbances. Economic concessions, such as wage increases, that would mute

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some of this reaction against austerity would probably spark a negative response from foreign creditors. At present, however, creditors and foreign investors are favorably inclined toward Ecuador because of Febres-Cordero's economic philosophy,

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[redacted] Thus, some US regional banks--though reluctant to increase their exposure in Ecuador--are now willing to keep trade credit lines open. [redacted]

The President-elect intends to act promptly on economic issues after his inauguration, in order to capitalize on this potential honeymoon period with lenders before his political opponents and labor can marshal their forces to oppose austerity. Given scarce foreign exchange reserves resulting from a continuing slump in the oil market, efforts to gain new lending as well as debt refinancing will be contingent on the new President's ability to reach and maintain an agreement with the IMF. Although we expect such an accord to be signed this fall, we judge that, at least during his first two years in office, Febres-Cordero will have continuing trouble meeting debt payments, keeping Ecuador in compliance with IMF performance criteria, and paying for imports to reactivate the industrial sector. [redacted]

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The new President probably will use several approaches in dealing with the recalcitrant labor movement. Aside from his legal authority over labor, he is likely to exploit his personal links to several important union officials. Moreover, his influence with businessmen, who have successfully co-opted several powerful unions in the coastal area, could help manage unruly workers. Finally, we expect Febres-Cordero to use populist tactics--including low cost subsidized housing and job creation programs--to offset potential labor discontent. Overall, we believe that by mixing legal sanctions, political patronage, and promises of benefits, Febres-Cordero will be able to keep labor unrest under control for at least the first year of his term. [redacted]

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The President-elect probably also will withstand the pressures from the political left, in our view. The US Embassy reports that the newly formed leftist legislative alliance unites a number of traditional enemies, who may well end up fighting each other instead of Febres-Cordero. The President-elect's conservative coalition in the Congress also may be able to increase its strength through an alliance with the delegates of two coastal populist parties, many of whose constituents voted

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for Febres-Cordero. Failing that, he may be able to override or get around much congressional opposition because of infrequent congressional sessions, substantial executive statutory authority, and powers of political patronage. Finally, Febres-Cordero's appeal to large numbers of voters in poorer neighborhoods may allow him to take advantage of a longstanding conservative populist tradition among the lower classes and thereby offset the left's proselytizing. [REDACTED]

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We believe that nascent terrorism is unlikely to pose a direct threat in the near future either to Febres-Cordero's administration or Ecuadorean democracy in general. Neither the AVC nor the PSRE at present have the resources to sustain a widespread insurgency. Nonetheless, they are capable of mounting a terrorist campaign that, if coupled with labor unrest, could raise public and armed forces anxiety and damage the administration's credibility. Moreover, some Ecuadoreans have publicly expressed concern that a conservative administration will swell the pool of alienated youth and leftists that terrorist groups draw on for recruits. We expect that if such a process occurs, it will build slowly. [REDACTED]

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Implications for the United States

We believe that the new president will follow a moderate course in foreign affairs. He has indicated publicly and privately to US officials that he will promote improved relations with the United States and will support US positions in international forums. In return, he will expect increased economic aid and strong US support for Ecuador's position in debt negotiations with the international banks. [REDACTED]

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The US Embassy notes that despite Febres-Cordero's occasional incendiary references to the unsettled border dispute with Peru, he is unlikely to engage in any revanchist moves or military adventures. Cognizant of Ecuador's military inferiority to Peru, the pragmatic Febres-Cordero probably will continue the present policy--favored by senior civilian and military officials--of attempting to reduce tensions with Lima through continuing dialogue. [REDACTED]

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Febres-Cordero has pledged to maintain ties with any country that refrains from interfering in Ecuadorean politics. Thus, we believe that if terrorist activities escalate, he may suspect Cuban complicity and reassess Ecuador's recent decision to resume full diplomatic ties with Havana. He will want solid evidence of Cuban support for terrorists before breaking relations, however, because the action could help rally his leftist political opponents. [REDACTED]

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APPENDIX

Ecuador's Political Parties

Right-to-Center

1. PSC (Social Christian Party): Party of President-elect Febres-Cordero
2. PC (Conservative Party)
3. PRN (Revolutionary Nationalist Party)
4. CID (Democratic Institutional Coalitions)
5. PNV (Velasquista National Party)
6. PL (Liberal Party or Radical Liberal Party)

Center-to-Left

7. FRA (Alfarist Radical Front)
8. CFP (Concentration of Popular Forces)
9. APRE (Revolutionary Popular Action Party)
10. PD (Democratic Party)
11. PRE (Ecuadorean Roldocist Party)
12. PCD (People, Change and Democracy)
13. DP (Popular Democracy)
14. ID (Democratic Left): party of defeated presidential candidate Rodrigo Borja

Far-Left

15. MPD (Democratic Popular Movement)
16. FADI (Broad Leftist Front)
17. PSE (Socialist Party)
18. PSRE (Ecuadorean Socialist Revolutionary Party)